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210850Z Jul 05

C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003096

SIPDIS

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STATE PLEASE PASS TO AIT/W AND USEPA  
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E.O. 12958: DECL: 07/15/2015

TAGS: [ECON](#) [ENRG](#) [PGOV](#) [PREL](#) [SENV](#) [TW](#) [ESTH](#)

SUBJECT: RAISING TAIWAN UTILITY PRICES: IF NOT NOW, THEN  
WHEN?

REF: A. 2005 TAIPEI 02601

[1](#)B. 2003 TAIPEI 00892

[1](#)C. 2002 TAIPEI 03912

Classified By: AIT DIRECTOR DOUGLAS PAAL FOR REASONS 1.4 (B) AND (D)

[1](#)1. (C) Summary. Problems in Taiwan,s water and power infrastructures abound. Water prices in Taiwan are lower than in Malawi and impede Taiwan from improving its extremely low sewage treatment rate of about 8 percent; if new power plants are not built by 2010, Taiwan will again face power shortages; Taiwan,s state-owned power company Taipower is facing negative budgets for its first time in history; electricity prices have not been increased since 1983;. Despite all this, the Chen Administration continues to vow not to increase water or electricity prices and is discouraging the primarily state-owned Chinese Petroleum Corporation (CPC) from raising gasoline rates. This is a clear indication that to date the second Chen Administration, like the first, has put politics above economic prudence. End Summary.

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No Rate Hikes Guaranteed  
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[1](#)2. (U) In recent weeks, on numerous occasions, Premier Frank Hsieh has publicly committed not to raise utility rates for water for at least a year and electricity rates for at least the summer. Similarly, Economic Minister Ho Mei-yueh is urging CPC not raise gasoline prices despite rising international crude oil prices. She also has promised not to raise electricity rates for at least the next few months.

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The Impact of Low Water Prices  
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[1](#)3. (SBU) Low water prices prevent Taiwan from maintaining its water infrastructure and discourage consumers from conserving water. In Taiwan, water costs only about 7 New Taiwan Dollars per cubic meter, making it among the lowest priced in the world ) below even that of Malawi and Ivory Coast in Africa. This low price, unchanged for over a decade, does not generate enough revenue to fix the extraordinary number of leaky pipes, which are estimated to result in at least a 30 percent loss of Taiwan,s water supply. Furthermore, Acting President of Taiwan,s Institute for Economic Research (TIER) David Hong estimates that, due to the high price elasticity of water, for each one percent increase in price, there would be almost a one percent decrease in demand. As a result, raising the price of water could both lower its consumption and provide enough income to fix the leaky pipes, both significant factors in Taiwan,s recurrent water shortages during low rainfall periods.

[1](#)4. (SBU) Taiwan faces similar problems in its wastewater infrastructure. Currently, disposing of wastewater in Taiwan is free. If Taiwan were to start charging for wastewater disposal, it could over time generate enough income to build wastewater treatment plants and underground sewage systems. Currently, only 8.26 percent of Taiwan,s wastewater is treated as compared to an average wastewater treatment level of approximately 59 percent in OECD (Organization for Economic Cooperation and Development) countries. According to Hong, it is likely that many private firms would be willing to build the required infrastructure without any initial outlay of funds by the Taiwan Government if those firms were guaranteed to receive the revenues generated from the fees for a long enough time to recover the costs of construction and make a profit (within about 25 years). Such systems could also be used to recycle more of Taiwan,s water, lowering even further the demand for new water supplies.

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Energy Prices  
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15. (SBU) Taiwan,s energy prices are similarly artificially low. Despite rising energy costs over the past few decades, Taiwan has not increased electricity rates since 1983. Low energy rates coupled with a belief that the Kyoto protocol would not acquire the needed ratifications to go into effect have led Taiwan to pay little attention to increasing energy efficiency, promoting energy conservation, or reducing greenhouse emissions in recent years. As a result, with the world's 17th largest GDP, in 2004, Taiwan was the world's 23rd largest emitter of greenhouse gases and energy efficiency has steadily decreased over time. In fact, it remains commonplace for stores in Taiwan to keep the doors of their highly-air conditioned stores open in hopes of drawing in foot traffic seeking relief from sweltering summer temperatures.

16. (SBU) Moreover, largely due to a sharp rise in coal prices in 2004, Taipower (Taiwan,s state-owned power company) lost New Taiwan Dollars 9 billion (USD 290 million)\*- the first loss in its history. If political promises not to raise electricity rates hold, Taipower could lose approximately NTD 19 billion (USD 613 million) in 2005. Note. World coal prices nearly doubled in 2004 due to supply problems in China, Indonesia and Australia. China's Shanxi province suffered mining accidents, heavy rain in Indonesia reduced production, and inadequate port infrastructure in Australia slowed exports. End Note.

#### Nuclear Politics

17. (SBU) Exacerbating Taipower's economic problems is the Chen Administration's political commitment to make Taiwan Nuclear Free (refuels). Currently, nuclear power accounts for about 16 percent of Taipower's installed capacity. Generators using carbon based fuels: coal (34%), LNG (27%), and oil (11%) make up 70% of installed capacity, with hydro filling out the rest. However, nuclear power is significantly less expensive than other power sources (just .67 NTD per kilowatt/hour) (note: 1 USD = 32 NTD), compared with coal at 1.0 NTD/kwh, oil at 2.0 NTD /kwh, hydro at 1.8 NTD /kwh, and LNG at 5 NTD/kwh. Because nuclear power is significantly cheaper to produce, it accounts for a disproportionately large 23% of total electricity generation. Without the continuation in service of Taiwan,s three existing nuclear power plants and the completion of the fourth nuclear power plant, given current growth trends, not only are Taiwan's energy costs likely to rise significantly, but also Taiwan can be expected to face energy shortages by 2010.

19. (SBU) Furthermore, failure to complete the construction of the USD 7-8 billion fourth nuclear power plant (which is well over half built) would have additional consequences. When the Chen Administration froze construction of the plant in October 2000, the political and economic consequences were great. The decision to cancel the project led to a 3 month suspension of its construction and cost the Government close to USD 30 million dollars. In addition, it spurred an unsuccessful attempt to recall President Chen and culminated in a Council of Grand Justices ruling that the decision to stop the construction was "flawed." After three months, the Chen Administration backtracked on the decision and agreed that construction would be resumed. At the same time, the Chen Administration reaffirmed its commitment to make Taiwan a nuclear-free homeland.

110. (SBU) To avoid another political fiasco over the fourth nuclear power plant, the recent National Energy Conference, as expected, did once again agree to complete the plant. Nonetheless, there are still anti-nuclear activists within the DPP (i.e., former DPP Chairman Lin I-Hsiung and current Environmental Protection Administration Head Chang Kow-lung) who believe that even if the plant is completed, it should never be put into operation. Moreover, despite all of the trade-offs in terms of global warming and energy costs posed by Taiwan,s nuclear-free homeland goals, there was no discussion of nuclear energy at the June National Energy Conference.

#### The Renewable Energy Myth

111. (SBU) Although there was no discussion of nuclear energy at the Conference, its conclusions note that a reduction in nuclear energy would be made up in part by an increase in coal consumption. However, they also suggest that renewable energy sources would play a large role in filling Taiwan,s energy gap.

112. (SBU) Taiwan,s renewable energy resources other than hydro currently account for a negligible 2 MW of Taiwan,s installed capacity of 33 gigawatts. As reported in reftel, according to a recent Taipower publication, &due to( geological and environmental restrictions( the percentage of

conventional hydro power in the entire system will be decreased from 5.7 percent in 2003 to 4.3 percent in 2015." The June National Energy Conference claimed that renewable energy could make up between 10-12 percent of Taiwan,s energy mix by 2025. This will be difficult to achieve given that, with current technologies, Taiwan,s only potential renewable energy option other than hydro is wind and wind is not reliable as a base-load source due to its unpredictability. In reality, if nuclear free homeland policies are continued, carbon-emitting coal can be expected to fill in the majority of the energy gap that would be left behind.

#### Energy Security

13.(C) The National Energy Conference also did not touch on energy security issues. Implementing Taiwan,s nuclear-free homeland policies has security implications. It takes only one aircraft to supply enough nuclear fuel to provide 18 billion kilowatt hours of electricity. To produce the same level of power from oil, natural gas or coal would require 38, 50 and 65 sea cargo shipments respectively. In the absence of nuclear power, Taiwan would have a maximum of one month's power generating fuel if maritime thoroughfare were impeded, increasing Taiwan,s vulnerability to the threat of a blockade by the PRC.

#### Comment

14.(U) In the long run, artificially low prices means lower quality water and power supplies for Taiwan consumers. They also distort free market incentives for conservation and investment in new technologies and infrastructure. Everyone AIT talked to in government, academia and think tanks readily acknowledged this is a major problem in Taiwan. They also all forcefully argued why it is important for Taiwan to raise utility prices. Nonetheless, the Chen Administration continues to vow not to increase water or electricity and is discouraging CPC from raising gasoline rates. In the past, policy makers claimed that while they knew it was in Taiwan,s economic interest to increase utility rates, they were holding off until after the March 2004 Presidential election to take action. Following President Chen Shui-bian's reelection, there were promises not to impose the much needed rate hikes until after the Legislative Yuan elections in December 2004. Now it is likely the multiple city and county magistrate elections that will occur in December that is stopping the Chen Administration from acting. The bottom line is that, to date, the second Chen Administration, like the first, has put politics above economic prudence.

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